



IOWA GENERAL ASSEMBLY
LEGISLATIVE SERVICES AGENCY

DENNIS C. PROUTY, DIRECTOR
 IOWA STATE CAPITOL
 DES MOINES, IA 50319
 515.281.3566
 Fax: 515.281.8027
dennis.prouty@legis.state.ia.us

DIVISIONS

LEGAL SERVICES
 RICHARD L. JOHNSON

FISCAL SERVICES
 HOLLY M. LYONS

COMPUTER SERVICES
 GLEN P. DICKINSON

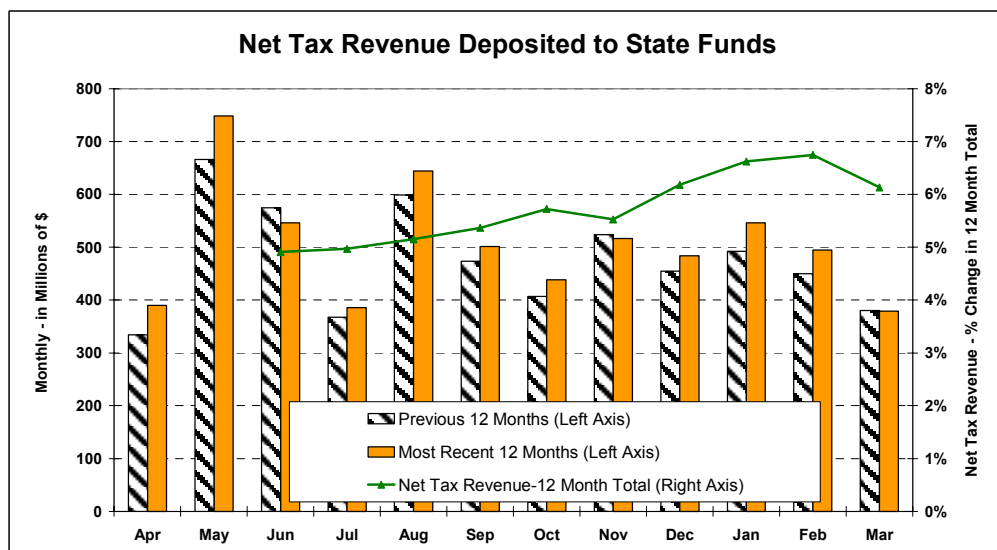
ADMINISTRATIVE SERVICES
 TIMOTHY C. FALLER

MEMORANDUM

TO: Members of the Iowa Senate and
 Members of the Iowa House of Representatives
 FROM: Jeff Robinson
 Shawn Snyder
 DATE: April 17, 2007

Twelve-month Total Net Tax Receipts Through March 31, 2007

The attached spreadsheet presents net State tax receipts for the 12-month period ending March 2007 with comparisons to the previous 12 months. March 2007 to March 2006 comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were collected, along with the refunds issued against those taxes. This document is the second in a monthly series of net state tax reports.



Month of March Comparison

March net tax receipts totaled \$378.9 million, a decrease of \$0.9 million (- 0.2%) compared to March 2006. Major taxes contributing to the month's change include:

- Sales/use tax (negative \$25.5 million) – A processing issue related to tax due dates contributed \$10.0 million to the decrease while an increase in the transfer out of local option sales tax also negatively impacted sales/use tax revenue. Without these issues, net sales/use tax growth would still have been negative for the month.

- Individual income (positive \$10.8 million) – Refunds were \$12.9 million lower for the month, due to the second withholding table change implemented last April.
- Corporate income tax (positive \$5.2 million) – March gross corporate tax receipts increased \$7.8 million for the month, but corporate tax refunds also increased.
- Fuel tax (positive \$6.1 million) – Gross revenue was up for the month and refunded revenue decreased.
- Cigarette & Tobacco taxes (positive \$4.8 million) – The cigarette tax was raised from \$0.36 per pack to \$1.36 per pack on March 16, 2007. The rate for other tobacco products also increased.

Year-over-Year Comparison – Net Tax Revenue

During the 12-month period ending March 2007, net revenue from all taxes deposited to State funds totaled \$6.074 billion, an increase of \$350.9 million (6.1%) compared to the prior 12 months. Major contributors to the change and the year-over-year dollar and percentage change include:

- Individual income tax (positive \$240.6 million, 10.4%) – Growth has generally been strong with a big jump in early December. The latest 12 months are boosted by changes to the State's income tax withholding tables that started April 2005 and will end April 2007.
- Corporate tax (positive \$100.3 million, 46.5%) – Corporate tax has shown strong growth since 2003, with a significant up-tick over the last 10 months.
- Sales/use tax (positive \$15.8 million, 0.8%) – The rate of sales/use tax growth has been falling steadily in recent months. Net sales/use tax deposited to the Road Use Tax Fund and to the State General Fund each decreased 7 of the last 12 months.
- Motor fuel tax (negative \$42.3 million, - 8.7%) – Gross fuel tax deposits decreased \$35.3 million and refunds increased \$7.0 million.
- Gambling tax (positive \$36.6 million, 14.8%) – New casino boats have started operations and existing track casinos have introduced table games during the last 12 months.

Tax Spotlight – Insurance Premium Tax

The insurance premium tax (Chapters 427 and 427A, Code of Iowa) is imposed on the premiums of all insurance companies except fraternal beneficiary associations. The tax is administered by the Iowa Insurance Division, with the Iowa Department of Revenue serving as the depositing entity for the tax receipts.

The Iowa insurance tax dates back to at least 1851 (Chapter 464, 1851 Code of Iowa). The rate was established at 2.0%, with one-half of the revenue at that time devoted to county purposes and one-half to the State. The tax rate has been as high as 2.5%. Prior to legislation enacted during the 2002 Legislative Session (see SF 2318, Insurance Tax Rate Reduction Act), the insurance premium tax rate for most forms of insurance was 2.0%. As a result of that legislation, the tax rate was reduced in annual 0.25 percent increments until the rate reached 1.0%.

For life and health insurance companies and associations and mutual health services corporations, the reduction started with policies issued calendar year 2003 and reached 1.0% for 2006. For other insurance companies and associations (property and casualty), the reduction started with 2004 and reached 1.0 percent for 2007.

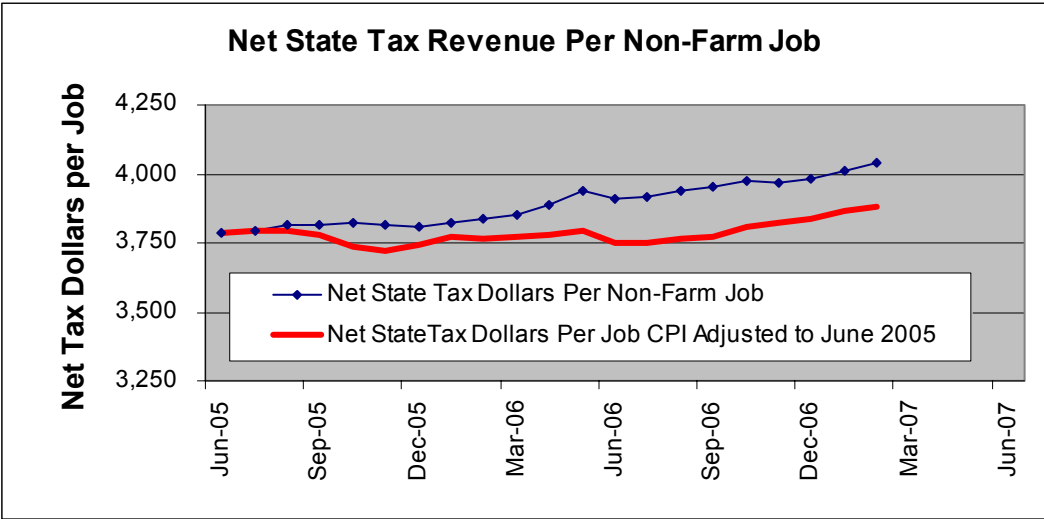
The marine insurance underwriting tax rate is 6.5 percent.

Insurance premiums tax reports from all insurers are to be filed before March 1 of the year following the calendar year for which the tax is due. Prepayments are due in June and August and are a percentage of the previous year's tax liability. Tax receipts from the insurance premium tax are deposited in the State General Fund.

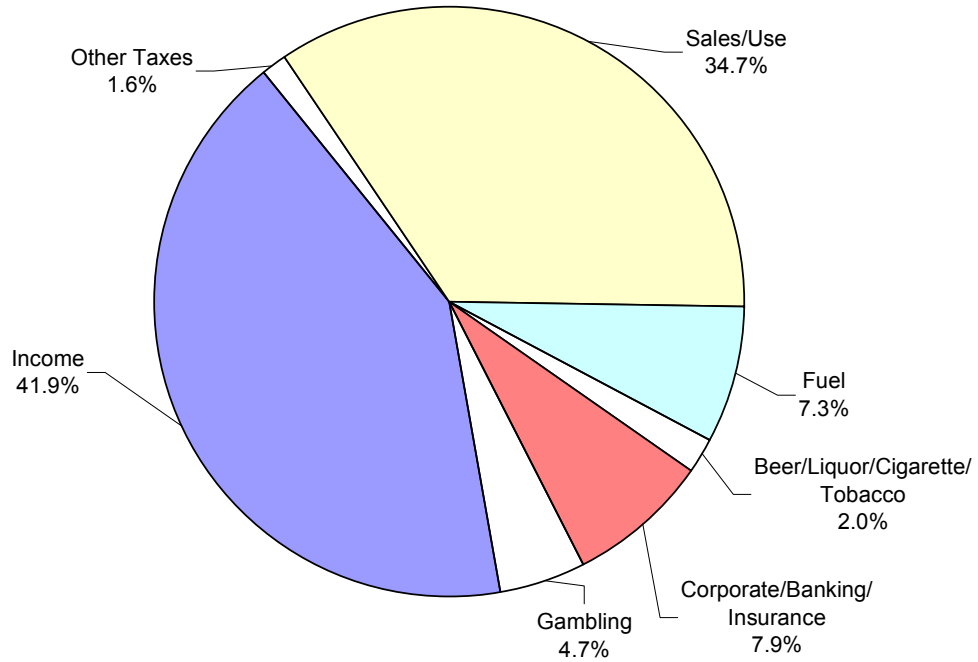
Iowa, like most or perhaps all other states, provides for a retaliatory insurance premium tax against insurance companies not located in the State. The retaliatory tax requires non-Iowa companies to pay either the Iowa tax rate, or the tax rate an Iowa company would be subjected to in the company's home state, if that rate is higher than the Iowa rate.

Tax Revenue and Employment

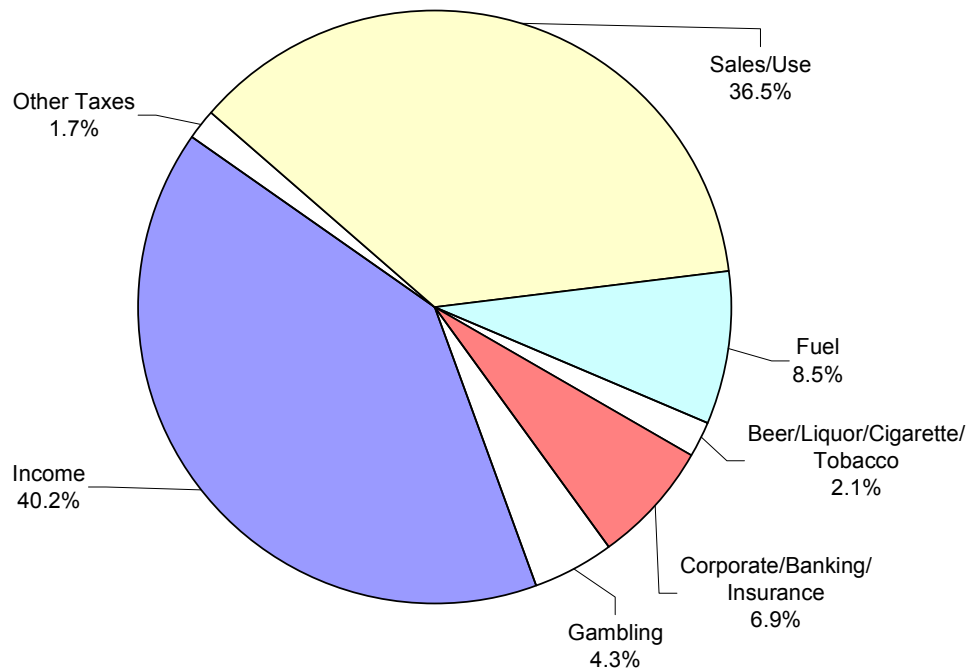
The average reading for Iowa non-farm employment over the 12 months ending February 2007 is 1,506,200, and net state tax receipts over the same 12 months totaled \$6.074 billion, or \$4,037 per non-farm job. This is \$247 (6.5%) higher than the per job average June 2005. Over that same time period, inflation (CPI-U) increased 4.6%. Therefore, tax revenue per job has exceeded the rate of inflation since June 2005 by roughly 1.1% per year. The following chart provides an historical perspective of dollars per non-farm job and inflation adjusted dollars per job.



Net State Tax Revenue - Twelve Months Ending March 2007
Net Revenue = \$6.073 Billion



Net State Tax Revenue - Twelve Months Ending March 2006
Net Revenue = \$5.723 Billion



Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - Columns and Rows may not add due to rounding

Net Tax by Tax Type	Total Previous 12 Month Period	Total Most Recent 12 Month Period	12 Month \$ Change	12 Month % Change	Month of March 2006	Month of March 2007	March \$ Change	March % Change
Banking	32.0	34.9	2.9	9.1%	1.4	2.0	0.6	42.9%
Beer & Liquor	19.6	20.2	0.6	3.1%	1.3	1.3	0.0	0.0%
Cigarette & Tobacco	97.3	103.4	6.1	6.3%	7.9	12.7	4.8	60.8%
Corporate Income	215.7	316.0	100.3	46.5%	22.9	28.1	5.2	22.7%
Fuel	484.5	442.2	-42.3	-8.7%	28.5	34.6	6.1	21.4%
Gambling	248.0	284.6	36.6	14.8%	25.0	28.2	3.2	12.8%
Individual Income	2,303.1	2,543.7	240.6	10.4%	123.4	134.2	10.8	8.8%
Inheritance	72.0	73.8	1.8	2.5%	5.7	7.3	1.6	28.1%
Insurance	133.1	125.0	-8.1	-6.1%	15.5	7.8	-7.7	-49.7%
Other Taxes	7.4	4.3	-3.1	-41.9%	1.3	1.3	0.0	0.0%
Real Estate Transfer	18.5	18.4	-0.1	-0.5%	1.1	1.1	0.0	0.0%
Sales/Use	2,091.3	2,107.1	15.8	0.8%	145.8	120.3	-25.5	-17.5%
Total Net Taxes	5,722.5	6,073.5	350.9	6.1%	379.8	378.9	-0.9	-0.2%
Gross Tax & Refunds								
Gross Tax	6,405.4	6,715.5	310.1	4.8%	512.7	498.2	-14.5	-2.8%
Tax Refunds	-682.8	-642.0	40.8	-6.0%	-132.8	-119.3	13.5	-10.2%
Net Tax Receipts by Fund								
State General Fund (GF)	4,756.9	5,125.6	368.7	7.8%	300.2	297.4	-2.8	-0.9%
Road Use Tax Fund	739.1	686.2	-52.9	-7.2%	49.3	51.8	2.5	5.1%
Non-GF Gambling	189.1	225.7	36.6	19.4%	25.0	28.2	3.2	12.8%
Other State Funds	37.5	36.0	-1.5	-4.0%	5.3	1.5	-3.8	-71.7%
Local Option Taxes *	589.7	637.8	48.1	8.2%	57.1	64.8	7.7	13.5%

* Sales, income, and hotel/motel. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

Tax Categories Used in Table

Franchise (bank) tax: Taxes on banks (credit union tax is included here) are deposited to the State General Fund.

Beer & liquor tax: Taxes on beer, liquor, and wine are deposited to the State General Fund, the Liquor Control Fund, and a small amount is deposited to a Department of Economic Development fund for wine promotion.

Cigarette & tobacco tax: Cigarette and the tobacco products tax revenue is deposited to the State General Fund.

Corporate income tax: All corporate tax is deposited to the State General Fund.

Motor fuel tax: All motor fuel tax is deposited to one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

Gambling tax: The first \$60.0 million of gambling tax revenue each fiscal year is deposited to the State General Fund. Other funds receiving deposits of gambling tax revenue over the last 24 months include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, The Gambler's Assistance Fund, the County Endowment Fund, the Endowment for Iowa's Health Account, and the Vision Iowa Fund.

Individual income tax: Most individual income tax revenue is deposited to the State General Fund. Other destinations include the Workforce Development Fund (\$4.0 million) and Child Daycare Fund (\$2.6 million). In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited to a State fund. That revenue is not included here.

Inheritance tax: All inheritance tax is deposited to the State General Fund.

Insurance premium tax: All insurance premium tax is deposited to the State General Fund.

Other taxes: Other taxes include Brucellosis eradication property tax (deposited to a Department of Agriculture and Land Stewardship's fund), drug stamp tax (State General Fund), utility replacement property tax (State General Fund), and car rental tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to a separate account to fund tax collection activities (tax gap).

Real estate transfer tax: Real estate transfer tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The State deposits 95.0% to the State General Fund and 5.0% to the Shelter Assistance Fund.

Sales/use tax: General sales/use tax is deposited to the State General Fund, while most vehicle use tax is deposited to the Road Use Tax Fund. An annual amount of \$17.0 million of vehicle use tax is deposited to the Underground Storage Tank Program.

Local Option Taxes: Local option taxes are presented at the bottom of the table and are not included in the numbers above. Local option taxes include local option sales tax for schools, local option sales tax for local government finance, local option income tax surcharge for schools, and hotel/motel tax.

Report Database

The database for this report is the State accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be affected.